



QUARTERLY INVESTMENT REVIEW

December 31, 2016

Economic Commentary

Fourth Quarter 2016

President Trump

The unexpected result in the U.S. presidential election caught markets off guard as Trump rallied to victory. A Trump win was expected to result in a decline in equity markets along with a rally in bond yields, particularly high quality government bonds. Dow Futures were down 800 points overnight and U.S. Treasury bond yields declined by 15 b.p., however, these moves were short-lived and completely reversed themselves by the close of trading the next day. Since then equity markets have soared, approaching all-times highs in the U.S., while bond yields have increased dramatically.

The rationale behind the market reaction is that investors are looking beyond the uncertainty and are focusing on the economic policies that Trump may enact once in office. During his campaign run, Trump said he would implement significant tax cuts along with allocating close to a trillion dollars to infrastructure spending. If these policies are adopted, they would be supportive of economic growth which should drive equity prices higher, while causing inflationary fears along with an increase in debt issuance, which are detrimental to bond yields. The big question facing markets as we enter 2017 is how much of these moves have already been priced into current markets and can Trump in fact deliver on his campaign promises.

Fed Raises Rates

After standing pat throughout the year, the U.S. Federal Reserve finally raised interest rates by 25 b.p. at its December meeting. They also projected three additional rate hikes in 2017, up from the

previous estimate of two, which kept upward pressure on bond yields. Future rate hikes will continue to be data-dependent, however, as the Fed had initially forecast four rate hikes in 2016 but ended up only doing the one move in December as economic data did not warrant any further action.

ECB Reduces Pace of QE

The European Central Bank extended the completion date of its quantitative easing program from March 2017 through to the end of the year. The size of the monthly purchases will be reduced, however, from 80 billion euros to 60 billion euros beginning in April. The ECB did state that the program could be altered again in the future depending on whether the inflation target is met. Although inflation has ticked up recently, it still remains well below the 2% target. The unemployment rate has shown improvement in Europe as well. After peaking at 12.1%, it continues to decline but remains elevated at just under 10%.

Bank of Canada Stays on the Sidelines

The Bank of Canada left its overnight rate unchanged during 2016. Weaker-than-expected results from the export sector, along with a downward move in inflation, have contributed to the Bank's decision to remain on hold. The Canadian economy began the fourth quarter on a negative note, with GDP declining by 0.3%. The divergent monetary policies between the U.S. and Canadian central banks have had a dramatic impact on the Canadian dollar exchange rate. After hitting a high of 1.2530 in April, the loonie has retreated gradually, ending the year at 1.3442.

Key Metrics

Indicator	Value	Chg 4Q	Chg 1Y
S&P/TSX Composite	15,287.59	4.5%	21.1%
S&P 500 (USD)	2,238.83	3.8%	12.0%
MSCI EAFE (USD)	1,684	-0.6%	1.6%
FTSE TMX Universe Bond Index	1,011.39	-3.4%	1.7%
USD/CAD	1.34	2.4%	-2.9%
WTI Crude (\$/bl)	\$ 53.72	7.6%	20.5%
GoC 10Y Bond	1.72%	72.5 bp	32.7 bp
GoC Deposit Rate	0.50%	0	0
Cdn CPI YoY	1.2%	-0.1%	-0.4%
US 10Y Treasury	2.45%	85.0 bps	17.5 bps
Fed Funds Rate	0.75%	25 bps	25 bps
USD CPI YoY	1.7%	0.2%	1.0%

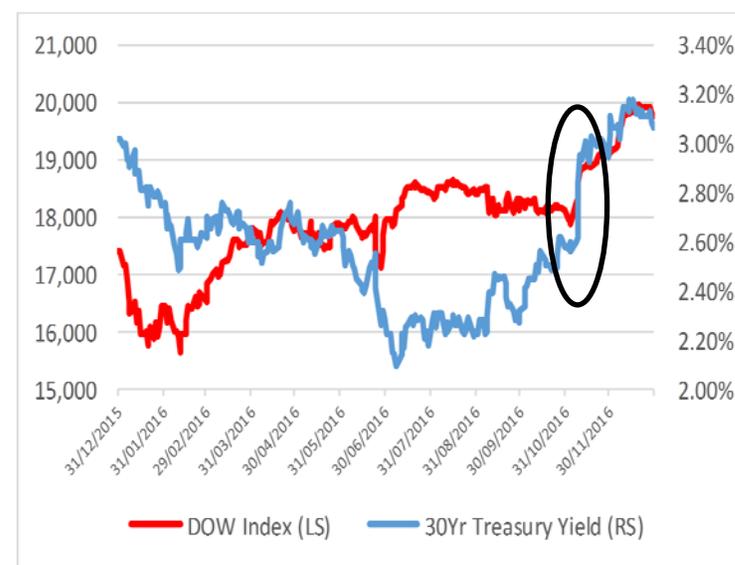
Top Themes

Trump's surprise victory ignites equity markets

U.S. interest rates on the rise (for now)

ECB takes foot off the QE accelerator

Top Chart: The Trump Effect (Dow Jones Index + 30Yr US Yields)



Source: Bloomberg, Lincluden

Portfolio Highlights

Q4 2016

TOTAL EQUITIES

Ticker	Security	Sector	Commentary
LB	LAURENTIAN BANK OF CANADA	Financials	Laurentian Bank performed well in the period and is expected to be a beneficiary of rising interest rates through an improvement in their net interest margins; the profitability earned between what they borrow and what they lend out.
MFC	MANULIFE FINANCIAL CORP	Financials	The stock performed well in reaction to the U.S. election result and the U.S. Federal Reserve interest rate move and indication of a bias towards increasing rates in the near future. The stock trades at an attractive level and offers a very attractive dividend yield.
RY	ROYAL BANK OF CANADA	Financials	Royal Bank performed well in the period and is expected to be a beneficiary of rising interest rates through an improvement in their net interest margins; the profitability earned between what they borrow and what they lend out.
SLF	SUN LIFE FINANCIAL INC	Financials	The stock performed well in reaction to the U.S. election result and the U.S. Federal Reserve interest rate move and indication of a bias towards increasing rates in the near future. The stock trades at an attractive level and offers a very attractive dividend yield.
SU	SUNCOR ENERGY INC.	Energy	The share price of Suncor increased on the back of stronger oil prices thanks to OPEC agreeing to supply cuts amongst its members.
TD	TD BANK	Financials	TD Bank performed well in the period and is expected to be a beneficiary of rising interest rates through an improvement in their net interest margins; the profitability earned between what they borrow and what they lend out.
BAC	BANK OF AMERICA CORPORATION COM	Financials	Bank of America was up about 50% in the quarter on the back of the improving interest rate environment and strong third quarter results.
BCS	BARCLAYS PLC ADR	Financials	Barclays was a strong contributor during the quarter as it benefitted from the rising interest rate environment. The company reported encouraging third quarter results showing improvements across many segments of the bank. Valuation continues to be very attractive.
CVX	CHEVRON CORP	Energy	The share price of Chevron increased on the back of stronger oil prices thanks to OPEC agreeing to supply cuts amongst its members.
C	CITIGROUP INC	Financials	Citigroup was a top contributor in the quarter as it, and other financial institutions, benefited from the expected and realized interest rate increase in December. The third quarter were strong and ahead of expectations, which also contributed to the strong performance.
NG/LN	NATIONAL GRID PLC	Utilities	National Grid declined in the quarter due to the rising interest rate environment which negatively impacted all defensive yielding securities. Earnings results were strong and ahead of expectations. Valuation is attractive for a stable growing company with a strong dividend yield.

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Q4 2016

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Ticker	Security	Sector	Commentary
WPG	WASHINGTON PRIME GROUP (WP GLIMCHER)	Real Estate	Washington Prime owns secondary malls and quality grocery anchored strip centres. This stock faced the same pressures as other retail REITs; namely a slowing of sales growth of some stores, and the closure of others such as Sears, Macy's and JC Penney. The shares trade at a large discount, and we are patiently waiting as the company reorganizes its portfolio of assets for a possible sale.